EX PARTE OR LATE FILED

BELLSOUTH

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EX PARTE

February 2, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F.Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: CC Docket No. 93-162

Dear Mr. Caton:

Today Don Barbour,Daonne Caldwell and the undersigned, all representing BellSouth, met with Greg Vogt, Barbara Espin and Amy Glatter of the Common Carrier Bureau's Tariff Division in connection with the above referenced proceeding. During this meeting, the attached material was discussed.

If you have any questions, please let me know.

Sincerely,

Whit Jordan

W.W. (Whit) Jordan
Director - Federal Regulatory

Attachments

cc: Greg Vogt
Barbara Espin
Amy Glatter

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BELLSOUTH TELECOMMUNICATIONS SUPPLEMENTAL SUBMISSION

IN CC DOCKET 93-162

An issue concerning BellSouth's expanded interconnection offerings surrounds the amount of overhead loadings included in developing the filed rates. In the Order suspending BellSouth's rates, the Common Carrier Bureau calculated a special access overhead loadings ratio from ARMIS data, concluding that it was the best available alternative. In this submission, BellSouth reviews the data it has provided to the Commission with regard to justifying its overhead loadings. In addition, BellSouth demonstrates that the Bureau's calculation and application of an ARMIS based overhead factor is inappropriate.

In its filing, BellSouth explained and documented its calculation of expanded interconnection costs. In its reply to petitions directed against the filing, BellSouth showed that the approach it used to calculate loadings for its EIS service resulted in considerably modest loading factors for EIS relative to that which BellSouth employs for its special access high capacity service. As BellSouth's Reply showed, had BellSouth used the same methodology for justifying overhead loadings for EIS that it used for its high capacity special access services, it would have been able to justify considerably higher EIS rates. The relevant portion of BellSouth's Reply is set forth in Attachment A.

In its direct case BellSouth further explained its

method for assigning overhead costs to EIS elements. As the direct case shows, a uniform methodology was used to determine the overhead amounts associated with each rate element. In addition, BellSouth provided in its Direct Case a complete list of costs, rates, overhead amounts, and overhead ratios for all EIS and VEIS rate elements and functions. BellSouth also provided the price-ceiling ratios of its high capacity services. The price ceiling ratios were the ratio of 1992 revenues (based on effective rates and 1992 demand) to incremental cost (based on existing demand). The extent to which these ratios exceeded a value of one, they reflected the actual overhead loadings embodied in the high capacity rates. The direct case showed that the overhead loadings for high capacity services exceeded the overhead ratio associated with expanded interconnection service. Even when individual rate elements or "functions" of expanded interconnection service were considered separately, the overhead ratios for these elements compared favorably to the overhead loadings associated with BellSouth's high capacity services.

In the investigation, only one party, ALTS, addressed BellSouth's evidentiary showings. In its Rebuttal Case, BellSouth fully refuted the general criticism that insufficient information had been provided to compare

overhead loadings.[1] The pertinent pages of BellSouth's Direct Case and Rebuttal Case are set forth in Attachments B and C, respectively.

In the Suspension Order, the Bureau calculated an overhead loading factor based on ARMIS data. It applied this factor to BellSouth's direct costs. There are two fundamental flaws in the Bureau's approach. First, the Bureau adjusts the ARMIS data to eliminate what the Bureau perceives as possible double counting of costs. Specifically, the Bureau makes an adjustment to remove the land and buildings component of GSF costs from the ARMIS data. The basis of this adjustment, according to the Bureau, is that land and building costs are recovered in the space construction and floor space charge.

While it is correct that space construction and the floor space charges recover the direct cost of land and building associated with the 100 square foot collocation space, there is still a substantial portion of land and building costs that are properly considered overhead costs--e.g., non-central office buildings. Only those portions of land and building costs directly used to support specific services are properly considered direct costs. For special access services other than expanded interconnection, total direct investment for land and buildings is $15,055,000.

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[1]There was no evidentiary showing to contradict BellSouth's direct case.

For expanded interconnection (both physical and virtual) the direct land and building investment is $46,318,354. Thus, total direct land and building investment for special access including expanded interconnection is $61,373,354. It is only the depreciation expense and depreciation reserve associated with this direct investment that should be excluded from the ARMIS overhead loading factor calculation in order to avoid double counting GSF costs.

The total special access GSF investment for BellSouth (in 1992) is $239,552,000. Reducing this amount for direct land and building investments of $61,373,000 leaves $178,179,000 of GSF investment as overhead. The ratio of the total overhead investment to total GSF investment is .7438. This ratio should have been applied to the Special Access GSF Depreciation Reserves and GSF Depreciation Expenses to obtain GSF overhead costs.

The Bureau did not adjust the GSF costs for only the direct cost portion associated with land and buildings. Instead, the Bureau first determined that land and buildings represents 51 percent of total company GSF costs. It then proceeded to reduce special access GSF costs by 51 percent. The resulting adjustment improperly removed land and building costs that are overhead (i.e., common) costs. Therefore, the ARMIS factor calculated by the Bureau is understated.

In Exhibit 1, the Bureau's erroneous reduction of GSF costs is corrected. Column C provides total BellSouth ARMIS data for 1992 as filed with the Commission. Column D shows ARMIS data adjusted to exclude only the direct land and building component of GSF costs and network operations expense.[2] Based on these data, an ARMIS overhead factor was calculated. The resulting factor was 1.6724 (as compared to 1.5278 calculated by the Bureau). Exhibit 2 shows the calculation of the ARMIS factor.

An equally significant flaw in the Bureau's approach is applying a factor derived from ARMIS data to direct incremental costs. Shown on Exhibit 1 are the direct costs for the special access category as a whole.[3] Exhibit 3 demonstrates that if an ARMIS overhead factor is applied to the special access direct incremental costs the maximum special access revenues that could be generated by special access rates would only produce $206,817,000. Special access rates in effect during 1992 produced $368,859,000 (recurring revenue). Thus, the use of an ARMIS derived

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[2] In the Suspension Order, the Bureau excluded all network operations expenses ($27 million) because such expenses would include activities such as service order activity for which nonrecurring charges are assessed. Network operations expenses include activities other than nonrecurring activities, however, nonrecurring revenues for special access are approximately $25 million. Accordingly, for the purposes of this analysis network operations expenses as reported in ARMIS were accepted as a surrogate for nonrecurring costs.

[3] Exhibit 12 shows a breakdown of the direct costs by category of special access service.

factor with a direct incremental cost results in a revenue shortfall of $162,042,000. In order to compensate for the revenue shortfall, a closure factor of 1.7835 would have to be applied to the $206,817,000. In other words, a total overhead factor of 2.9827 is the appropriate factor to apply to special access direct incremental costs in order to obtain the special access revenues that in fact were produced in 1992.

Even if it were assumed that the overhead factor should only result in recovery of total cost plus return (rather than total recurring revenue), an ARMIS derived factor still results in a revenue shortfall. Exhibit 3 (line K) shows that a closure factor of 1.5580 would still be needed to produce the appropriate level of revenues. Hence, even to obtain only a total cost plus return result, the ARMIS derived factor of 1.6724 would still have to be adjusted upward to 2.6057 when applied to a direct incremental cost.

It is evident that an ARMIS derived factor used in conjunction with an incremental cost (as the Bureau did with BellSouth's expanded interconnection offering) grossly understates the amount of overhead costs assigned. Nor does this result change if the data are further adjusted to take into account the reallocation of GSF costs between access categories. Exhibit 3 (lines N through V) calculate overhead factors which reflect the reallocation of GSF. An overhead factor of 2.6650 would still be required to produce

1992 special access revenues (less the GSF adjustment). Likewise on a total cost plus return basis, the factor would be 2.2879.

If a properly adjusted ARMIS factor were used in conjunction with expanded interconnection direct costs, the resulting rates would be considerably higher than those filed by BellSouth. BellSouth's filed rates for expanded interconnection reflect a loadings factor considerably less than a properly calculated special access category loadings factor.

Exhibits 4 to 11 illustrate this point. Exhibits 4 and 5 show the loading factors reflected in the expanded interconnection charges for physical and virtual collocation arrangements. For EIS (physical) and VEIS (virtual) the loading factors are 1.41 and 1.34. These factors are substantially less than the adjusted ARMIS factors calculated on Exhibit 3.[4] Indeed, Exhibits 8 through 11 show the expanded interconnection rates that would be needed if an adjusted ARMIS factor were employed as the basis of establishing overhead loadings.

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[4] Exhibits 6 and 7 show overhead ratios for EIS and VEIS which exclude ad valorem and administration expense from the direct cost definition.

EXHIBIT 1

BELLSOUTH SPECIAL ACCESS

(DOLLARS IN THOUSANDS)

(A) ITEM	(B) PART 32 ACCOUNT	(C) 1992 FILED ARMIS DATA	(D) 1992 ADJ.* ARMIS DATA	(E) SPECIAL ACCESS DIRECT COST **
EXPENSES				
DEPRECIATION	6561			
General Support				
Total	2110	19,195	14,522	397
Land	2111	N/A	N/A	0
Building	2121	N/A	N/A	397
Operator Systems				
Total	2220	217	217	0
COE Switching				
Total	2210	15,984	15,984	61
Analog Electronic Switching	2211	N/A	N/A	
Digital Electronic Switching	2212	N/A	N/A	61
COE Transmission				
Total	2230	41,983	41,983	49,726
Circuit Equipment	2232	N/A	N/A	49,726
Cable & Wire Facilities				
Total	2410	18,699	18,699	7,262
Poles	2411	N/A	N/A	290
Aerial Cable	2421	N/A	N/A	2,232
Underground Cable	2422	N/A	N/A	1,133
Buried Cable	2423	N/A	N/A	3,237
Intrabuilding Network Cable	2426	N/A	N/A	2
Conduit Systems	2441	N/A	N/A	368
IOT Equipment				
Total	2310	10	10	0
Other				
Total	----	4	0	0
TOTAL		96,092	91,415	57,448
INCOME TAX (SIT & FIT)	7220/7230	36,634	22,487	17,752
NET RETURN / C.O.M.		86,568	60,381	40,224
INCREMENTAL STUDIES				
AD VALOREM TAX	7240	12,825	12,825	0
MAINTENANCE				
General Support				
Total	6120	N/A	N/A	73
Land & Building	6121	N/A	N/A	73
COE Switching				
Total	6210	0	0	33
Analog Electronic Switching	6211	N/A	N/A	
Digital Electronic Switching	6212	N/A	N/A	33
COE Transmission				
Total	6230	28,142	28,142	4,390
Circuit Equipment	6232	N/A	N/A	4,390
Cable & Wire Facilities				
Total	6410	19,136	19,136	3,745
Poles	6411	N/A	N/A	181
Aerial Cable	6421	N/A	N/A	1,381
Underground Cable	6422	N/A	N/A	206
Buried Cable	6423	N/A	N/A	1,953
Intrabuilding Network Cable	6426	N/A	N/A	0
Conduit Systems	6441	N/A	N/A	44
IOT Equipment				
Total	6310	22	22	0
TOTAL		47,300	47,300	8,241
ADMINISTRATION				
Network Support Expense	6110	757	757	
General Support Expense	6120	31,160	31,160	
Network Operations Expense	6530	26,682	0	
Customer Operations Expense	6620	16,566	16,566	
Corporate Operations	6700	26,605	26,605	
TOTAL		101,770	75,088	0
OTHER				
Non-Operating-Special Charges	7370	374	0	
Other Property, Plant & Eqmt	6510	208	208	
Marketing Expense	6610	12,525	12,525	
FCC Expense Adj	----	2	2	
Recurring Costs				123,665
Non-recurring costs				25,439
TOTAL COSTS		307,730	281,850	149,104
TOTAL REVENUES		394,298		
TOTAL COST + RETURN (TCR)			322,230	
OVERHEAD LOADING FACTOR		----	1.8724	

* Adjustment made for GSF included in Special Access

**BellSouth Direct Cost using FCC's definition (excludes administration and ad valorem tax)

BELLSOUTH SPECIAL ACCESS OVERHEAD LOADING FACTOR DEVELOPMENT
USING ADJUSTED 1992 ARMIS 43-04 REPORT DATA
($000)

OVERHEAD COSTS

INVESTMENT	192,542
RESERVES/CREDITS	99,336
NET INVESTMENT	93,206
NET RETURN	10,486
PLANT SPECIFIC EXPENSES	31,917
PLANT NON-SPECIFIC EXPENSES	208
DEPRECIATION EXPENSES	14,522
CUSTOMER OPERATIONS EXPENSES	29,090
CORPORATE OPERATIONS EXPENSES	26,605
FEDERAL INCOME TAXES	3,028
STATE INCOME TAXES	877
OTHER STATE & LOCAL INCOME TAXES	12,825
OTHER EXPENSES	0
TOTAL OVERHEAD COSTS	129,558

DIRECT COSTS

INVESTMENT	917,076
RESERVES/CREDITS	473,564
NET INVESTMENT	443,512
NET RETURN	49,895
PLANT SPECIFIC EXPENSES	47,300
DEPRECIATION EXPENSES	76,893
FEDERAL INCOME TAXES	14,410
STATE INCOME TAXES	4,172
OTHER EXPENSES	2
TOTAL DIRECT COSTS	192,672

OVERHEAD RATIO	1.6724

123				
124	CALC	Factor: GSF excl L&B as % of tot GSF (flb)	0.4923	BSTR
125	CALC	Factor for GSF as % of TPIS (fgsf)	0.2063	1992 ARMIS 43-04
	CALC	ROR factor for SLIT	0.7524	OH FACTOR
126				WITH GSF
127	1410	TotCOE36/69	$573,761	ADJUSTED
128	1440	TotIOTEquip36/69	$214	& NETWORK
129	1530	TotC&WF36/69	$347,920	OPERATIONS
130		Total Direct Plant	$921,895	EXPENSE = 0
131	CALC	2020 Tot Cap Lease excl. GSF	$0	
132	CALC	2130 Lease Improv excl. GSF	$0	
133	CALC	2250 FCC Inv Adj less GSF	($4,819)	
134		Total Direct Investment	$917,076	
135				
136	CALC	1000 GSF	$178,179	
137	CALC	2001 GSF Cap Lease	$3,412	
138	CALC	2070 GSF Leas Improv	$3,314	
139	CALC	2250 FCC Inv Adj for GSF	($1,253)	
140		Tot GSF Investment	$183,652	
141	2160	IntanAss36/69	$0	
142	2190	PHFTU36/69	$31	
143	2191	TPUCShort36/69	$6,496	
144	2224	TotInvtr36/69	$8,784	
145	2230	CWC36/65/69	($6,421)	
146		Overhead Inv other than GSF	$8,890	
147		Tot Overhead Inv (incl. GSF)	$192,542	
148				
149	CALC	3080 Tot Acc Dep Less GSF & PHFTU	$359,525	
150	CALC	3150 Amort Tang Assets less GSF	$0	
151	CALC	3220 Amort Lease Impr less GSF	$0	
152	CALC	3340 Current DOIT less GSF	$0	
153	CALC	3410 Non-Cur DOIT less GSF	$101,579	
154	3421	FCCReserveAdj65 excl. GSF	$7,551	
155	CALC	3422 Cust Dep Less Attrib to GSF	$2,971	
156	3423	OtherDefCrs36/69 excl. GSF	$1,938	
157		Direct Credits	$473,564	
158				
159	CALC	3010 GSF Acc Dep	$83,670	
160	3070	Acc Dep for PHFTU36/69	$2	
161	CALC	3090 GSF Amort Capital Lease	$1,371	
162	CALC	3160 GSF Amort Lease Impr	$1,849	
163	3260	Amort Intang Assets	$0	
164	CALC	3280 Current GSF DOIT	$0	
165	CALC	3350 Non-Cur GSF DOIT	$29,205	
	3421	FCCReserveAdj65 for GSF	$1,963	
166	CALC	3422 Cust Dep Attrib to GSF	$772	
	3423	OtherDefCrs36/69 for GSF excl. L&B	$504	
167		Overhead Credits	$99,336	
168				
169		Net Direct Inv	$443,512	
170		Net Return on Direct Inv	$49,895	
171				
172		Net Overhead Inv	$93,206	
173		Net Return on Overhead Inv	$10,486	
174				
175	5026	TotCOExp36/69	$28,142	
176	5060	TotIOTExp36/69	$22	
177	5076	TotC&WFExp36/69	$19,136	
178		Direct Plant Specific Expenses	$47,300	
179				
180	5000	NetworkSupp36/69	$757	
181	CALC	5010 GeneralSupp36/69	$31,160	
182	6000	OtherPP&E36/69	$208	
183	6010	NetworkOper36/69	$0	
184		Overhead Plant Specific Expenses	$32,125	
185				
186	CALC	6090 Dep Exp excl. GSF and PHFTU	$76,893	
187	CALC	6160 Cap Lease Amort. excl. GSF	$0	
188	CALC	6230 Lease Improv excl GSF	$0	

189		Direct Depreciation Expenses	$76,893
190			
191	CALC	6020 GSF Dep Exp	$13,578
192	6080	PHFTU Dep Exp	$0
193	CALC	6100 GSF Cap Lease Amort.	$940
194	CALC	6170 GSF Lease Improv	$0
195	6254	TotOther36/69	$4
196		Overhead Depreciation Expenses	$14,522
197			
198	7000	Cust Op Exp Cat 1 TotMkting36/69	$12,525
199	7060	Cust Op Exp Cat 2a TotTelOp36/69	$0
200	7076	Cust Op Exp Cat 2b TotPubDir36/69	$0
227	7220	Cust Op Exp - Cat 2c1 - Loc Bus Off Exp	$14,748
241	7290	Cust Op Exp - Cat 2c2 - Rev Acctg	$970
243	7300	3 OthCustSvc36/69	$847
		Total Cust Op Exp	$29,090
245	7331	Corp Op Exp	$26,605
		Total Other Overhead Expenses	$55,695
246			
247	CALC	7350 FCCExpenseAdj65 less GSF	$2
248	CALC	7350 FCCExpenseAdj65 for GSF	$0
249			
250		Total Direct Expenses	$124,195
251		Total Overhead Expenses	$102,342
252			
253	CALC	8000 SLIT for direct costs	$4,172
		FIT on Direct Net Return	$14,410
		Total Direct Taxes	$18,582
254			
255	CALC	8000 SLIT for overheads	$877
256	8005	TotOthSt&Lcl69	$12,825
		FIT on Overhead Net Return	$3,028
		Total Overhead Taxes	$16,730
		Calculation of SLIT:	
		GSF-Direct Inv	$183,652
		Other Overheads-Direct Inv	$8,890
		GSF and Other Overheads - Dir Inv	$192,542
		GSF and Oth Over - Dir. Inv.	$192,542
		Ratio	1.0000
		Net Overhead Inv	$93,206
		Est Net Overhead Inv	$93,206
		Net Direct Investment	$443,512
		SLIT	$6,710
		SLIT at 11.25 ROR	$5,049
		SLIT for Overheads	$877
		SLIT for Overheads	$877
		SLIT for Net Direct Inv.	$4,172
257			
258		Calculation of FIT factor:	
259		Total Net Return at 11.25%	$60,381
260		Fixed Charges	$18,419
261		Amort of ITC & Adj	$2,760
262		Adjusted Net Return	$39,202
263		FIT Gross-Up Factor	0.5152
264		Gross FIT	$20,197
265		Amort of ITC & Adj	$2,760
266		Net FIT	$17,437
267		FIT Factor	0.2888
274			
275		Total Direct Revreq	$192,672
276		Total Overhead Revreq	$129,558
277		Overhead Ratio	1.6724

ASSUMPTIONS:

- DIRECT COST = DEPRECIATION, C.O.M., INCOME TAX, AND MAINTENANCE
- MAXIMUM REVENUES =DIRECT COST *ARMIS FACTOR
- NONRECURRING REVENUES INCLUDE NETWORK OPERATIONS
- UNIT DIRECT COSTS * 1992 BASE YEAR DEMAND = TOTAL COST
- (DOLLARS IN THOUSANDS)

ADJUSTED ARMIS FACTOR

PRE – GSF

A.	DIRECT COST (EXHIBIT 1, COL. E)	$123,665
B.	BELLSOUTH ADJUSTED ARMIS FACTOR (EXHIBIT 1, COL. D)	1.6724
C.	MAXIMUM REVENUES (LINE A * LINE B)	$206,817
D.	1992 FILED ARMIS DATA TOTAL REVENUE	$394,298
E.	NONRECURRING REVENUES	$25,439
F.	1992 FILED ARMIS DATA TOTAL REVENUE MINUS NONRECURRING REV (LINE D – LINE E)	$368,859
G.	REVENUE SHORTFALL (LINE F – LINE C)	$162,042
H.	CLOSURE FACTOR (LINE F / LINE C)	1.7835
I.	TOTAL FACTOR REQUIRED FOR BELLSOUTH TO RECOVER ALL REV (LINE H * LINE B)	**2.9827**
J.	1992 ADJUSTED ARMIS DATA (TCR) (FCC EXCLUDES NETWORK OPERATIONS AND ASSUMES 11.25% RETURN)	$322,230
K.	REVENUE SHORTFALL (LINE J – LINE C)	$115,413
L.	CLOSURE FACTOR (LINE J / LINE C)	1.5580
M.	TOTAL FACTOR REQUIRED FOR BELLSOUTH TO RECOVER ALL REVENUES (LINE L * LINE B)	**2.6057**

POST – GSF

N.	GSF ADJUSTMENT	$39,291
O.	1992 FILED ARMIS DATA TOTAL REVENUES MINUS NETWORK OPERATIONS AND GSF (LINE D – LINE E – LINE N)	$329,568
P.	REVENUE SHORTFALL (LINE O – LINE C)	$122,751
Q.	CLOSURE FACTOR (LINE O / LINE C)	1.5935
R.	TOTAL FACTOR REQUIRED FOR BELLSOUTH TO RECOVER ALL REVENUES (LINE Q * LINE B)	**2.6650**
S.	1992 ADJUSTED ARMIS DATA (TCR) (LN J – LN N) (FCC EXCLUDES NETWORK OPERATIONS AND ASSUMES 11.25% RETURN)	$282,939
T.	REVENUE SHORTFALL (LINE S – LINE C)	$76,122
U.	CLOSURE FACTOR (LINE S / LINE C)	1.3681
V.	TOTAL FACTOR REQUIRED FOR BELLSOUTH TO RECOVER ALL REVENUES (LINE U * LINE B)	**2.2879**

OVERHEAD RATIO CALCULATION FOR EIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

PHYSICAL OFFICES WITH INTERCONNECTORS	90
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
BACK-UP AC POWER PER INTERCONNECTOR	1
ADDITIONAL DC POWER PER INTERCONNECTOR	1

EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Rate (b)	**Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g=f/e)
Space Const. Charge – per 100 Sq. Ft. Module	$51,660.00	$51,652.87	270	$13,946,275	$13,948,200	1.00
Interconnection Floor Space	$931.00	$541.88	3240	$1,755,691	$3,016,440	1.72
Cross-Connect per DS1	$9.00	$6.80	324000	$2,203,200	$2,916,000	1.32
Cross-Connect per DS3	$76.00	$58.72	38880	$2,283,034	$2,954,880	1.29
Back-up AC Power – per Module	$194.00	$145.89	3240	$472,684	$628,560	1.33
Additional DC Power – per Module	$199.00	$149.18	3240	$483,343	$644,760	1.33
EIS SERVICE TOTAL INCLUDING NONRECURRING SPACE CONSTRUCTION CHARGE *				$21,144,227	$24,108,840	1.14
EIS SERVICE TOTAL EXCLUDING NONRECURRING SPACE CONSTRUCTION CHARGE				$7,197,952	$10,160,640	1.41

*Ratio is only valid for first year, i.e. year service is established.

**DIRECTLY ASSIGNED COSTS INCLUDES ADMIN AND AD VALOREM

OVERHEAD RATIO CALCULATION FOR VEIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

VIRTUAL OFFICES WITH INTERCONNECTORS	51
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
FLOOR SPACE PER INTERCONNECTOR	20
AMPERES PER INTERCONNECTOR	15

VIRTUAL EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Rate (b)	**Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g=f/e)
Cable Support Structure	$15.00	$11.41	1836	$20,949	$27,540	1.31
Cross-Connect per DS1	$9.00	$6.80	183600	$1,248,480	$1,652,400	1.32
Cross-Connect per DS3	$76.00	$58.72	22032	$1,293,719	$1,674,432	1.29
Floor Space - per Sq. Ft.	$5.00	$2.76	36720	$101,347	$183,600	1.81
Floor Space - per Amp	$5.00	$2.98	27540	$82,069	$137,700	1.68
VEIS SERVICE TOTAL				$2,746,564	$3,675,672	1.34

**DIRECTLY ASSIGNED COSTS INCLUDES ADMIN AND AD VALOREM

EXHIBIT 6

BELLSOUTH OVERHEAD RATIO CALCULATION

OVERHEAD RATIO CALCULATION FOR EIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

PHYSICAL OFFICES WITH INTERCONNECTORS	90
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
BACK-UP AC POWER PER INTERCONNECTOR	1
ADDITIONAL DC POWER PER INTERCONNECTOR	1

EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Filed Rate (b)	** Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g=f/e)
Interconnection Floor Space	$826.00	$320.46	3240	$1,038,290	$2,676,240	2.58
Cross-Connect per DS1	$9.00	$5.61	324000	$1,817,640	$2,916,000	1.60
Cross-Connect per DS3	$76.00	$48.43	38880	$1,882,958	$2,954,880	1.57
Back-up AC Power - per Module	$194.00	$120.06	3240	$388,994	$628,560	1.62
Additional DC Power - per Module	$199.00	$123.33	3240	$399,589	$644,760	1.61
EIS SERVICE TOTAL				$5,527,472	$9,820,440	1.78

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 7

BELLSOUTH OVERHEAD RATIO CALCULATION

OVERHEAD RATIO CALCULATION FOR VEIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

VIRTUAL OFFICES WITH INTERCONNECTORS	51
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
FLOOR SPACE PER INTERCONNECTOR	20
AMPERES PER INTERCONNECTOR	15

VIRTUAL EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Filed Rate (b)	**Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g=f/e)
Cable Support Structure	$15.00	$9.41	1836	$17,277	$27,540	1.59
Cross-Connect per DS1	$9.00	$5.61	183600	$1,029,996	$1,652,400	1.60
Cross-Connect per DS3	$76.00	$48.43	22032	$1,067,010	$1,674,432	1.57
Floor Space - per Sq. Ft.	$5.00	$2.19	36720	$80,417	$183,600	2.28
Floor Space - per Amp	$4.00	$2.47	27540	$68,024	$110,160	1.62
VEIS SERVICE TOTAL				$2,262,723	$3,648,132	1.61

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 8

BELLSOUTH OVERHEAD RATIO CALCULATION BASED ON PRE GSF ADJUSTED ARMIS FACTOR

OVERHEAD RATIO CALCULATION FOR EIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

PHYSICAL OFFICES WITH INTERCONNECTORS	90
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
BACK-UP AC POWER PER INTERCONNECTOR	1
ADDITIONAL DC POWER PER INTERCONNECTOR	1

EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Total Maximum Rate (b=g*c)	** Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g)
Interconnection Floor Space	$954.97	$320.46	3240	$1,038,290	$3,094,105	2.98
Cross-Connect per DS1	$16.72	$5.61	324000	$1,817,640	$5,416,567	2.98
Cross-Connect per DS3	$144.32	$48.43	38880	$1,882,958	$5,611,216	2.98
Back-up AC Power - per Module	$357.78	$120.06	3240	$388,994	$1,159,203	2.98
Additional DC Power - per Module	$367.52	$123.33	3240	$399,589	$1,190,776	2.98
EIS SERVICE TOTAL				$5,527,472	$16,471,868	2.98

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 9

BELLSOUTH OVERHEAD RATIO CALCULATION BASED ON PRE GSF ADJUSTED ARMIS FACTOR

OVERHEAD RATIO CALCULATION FOR VEIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

VIRTUAL OFFICES WITH INTERCONNECTORS	51
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
FLOOR SPACE PER INTERCONNECTOR	20
AMPERES PER INTERCONNECTOR	15

VIRTUAL EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Total Maximum Rate (b=g*c)	**Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g)
Cable Support Structure	$28.04	$9.41	1836	$17,277	$51,485	2.98
Cross-Connect per DS1	$16.72	$5.61	183600	$1,029,996	$3,069,388	2.98
Cross-Connect per DS3	$144.32	$48.43	22032	$1,067,010	$3,179,689	2.98
Floor Space - per Sq. Ft.	$6.53	$2.19	36720	$80,417	$239,642	2.98
Floor Space - per Amp	$7.36	$2.47	27540	$68,024	$202,711	2.98
VEIS SERVICE TOTAL				$2,262,723	$6,742,915	2.98

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 10

BELLSOUTH OVERHEAD RATIO CALCULATION BASED ON POST GSF ADJUSTED ARMIS FACTOR

OVERHEAD RATIO CALCULATION FOR EIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

PHYSICAL OFFICES WITH INTERCONNECTORS	90
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
BACK-UP AC POWER PER INTERCONNECTOR	1
ADDITIONAL DC POWER PER INTERCONNECTOR	1

EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Total Maximum Rate (b=g*c)	** Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g)
Interconnection Floor Space	$855.63	$320.46	3240	$1,038,290	$2,772,235	2.67
Cross-Connect per DS1	$14.98	$5.61	324000	$1,817,640	$4,853,099	2.67
Cross-Connect per DS3	$129.31	$48.43	38880	$1,882,958	$5,027,499	2.67
Back-up AC Power - per Module	$320.56	$120.06	3240	$388,994	$1,038,615	2.67
Additional DC Power - per Module	$329.29	$123.33	3240	$399,589	$1,066,903	2.67
EIS SERVICE TOTAL				$5,527,472	$14,758,351	2.67

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 11

BELLSOUTH OVERHEAD RATIO CALCULATION BASED ON POST GSF ADJUSTED ARMIS FACTOR

OVERHEAD RATIO CALCULATION FOR EIS SERVICE BASED ON ASSUMED DEMAND

DEMAND ASSUMPTIONS:

VIRTUAL OFFICES WITH INTERCONNECTORS	51
INTERCONNECTORS PER OFFICE	3
DS1 CROSS-CONNECTS PER INTERCONNECTOR	100
DS3 CROSS-CONNECTS PER INTERCONNECTOR	12
FLOOR SPACE PER INTERCONNECTOR	20
AMPERES PER INTERCONNECTOR	15

VIRTUAL EXPANDED INTERCONNECTION SERVICE BELLSOUTH RATE ELEMENTS

Investment Related Rate Element (a)	Total Maximum Rate (b=g*c)	**Directly Assigned Cost (c)	Assumed Demand (d)	Total Cost (e=c*d)	Total Revenue (f=b*d)	Overhead Ratio (g)
Cable Support Structure	$25.12	$9.41	1836	$17,277	$46,129	2.67
Cross-Connect per DS1	$14.98	$5.61	183600	$1,029,996	$2,750,089	2.67
Cross-Connect per DS3	$129.31	$48.43	22032	$1,067,010	$2,848,916	2.67
Floor Space - per Sq. Ft.	$5.85	$2.19	36720	$80,417	$214,713	2.67
Floor Space - per Amp	$6.59	$2.47	27540	$68,024	$181,624	2.67
VEIS SERVICE TOTAL				$2,262,723	$6,041,471	2.67

** DIRECTLY ASSIGNED COSTS IS FCC DEFINITION WITH ADMIN AND AD VALOREM REMOVED

EXHIBIT 12

BELLSOUTH SPECIAL ACCESS
BREAKDOWN OF DIRECT COST
(DOLLARS IN THOUSANDS)

	SERVICE CATEGORY	DEPRECIATION	COM	INCOME TAX	MAINTENANCE	TOTAL	OVERHEAD LOADING	TOTAL MAXIMUM RATE
A.	VOICE GRADE, WATS METALLIC, TELEGRAPH AUDIO PROGRAM & VIDEO	22,675	17,400	7,761	4,945	52,780	2.9827	157,427
B.	DDAS	3,181	2,686	1,180	564	7,611	2.9827	22,701
C.	DDAS HICAP	88	126	56	11	279	2.9827	833
D.	DS1	18,066	13,757	6,027	1,834	39,684	2.9827	118,365
E.	DS3	13,441	6,257	2,729	886	23,316	2.9827	69,543
F.	HICAP SUMMARY (C.+D.+E.)	31,593	20,139	8,811	2,733	63,275	2.9827	188,730
	TOTAL (A.+B.+F.)					123,666	2.9827	368,858

	SERVICE CATEGORY	DEPRECIATION	COM	INCOME TAX	MAINTENANCE	TOTAL	OVERHEAD LOADING	TOTAL MAXIMUM RATE
A.	VOICE GRADE, WATS METALLIC, TELEGRAPH AUDIO PROGRAM & VIDEO	22,675	17,400	7,761	4,945	52,780	2.665	140,659
B.	DDAS	3,181	2,686	1,180	564	7,611	2.665	20,283
C.	DDAS HICAP	88	126	56	11	279	2.665	744
D.	DS1	18,066	13,757	6,027	1,834	39,684	2.665	105,757
E.	DS3	13,441	6,257	2,729	886	23,316	2.665	62,136
F.	HICAP SUMMARY (C.+D.+E.)	31,593	20,139	8,811	2,733	63,275	2.665	168,628
	TOTAL (A.+B.+F.)					123,666	2.665	329,569

BellSouth Direct Cost using FCC's definition (excludes administration and ad valorem tax)

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
BellSouth Telecommunications, Inc.	)	Transmittal No. 92
Tariff F.C.C. No. 1	)	

REPLY

BELLSOUTH TELECOMMUNICATIONS, INC.

Its Attorneys

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DATE: April 5, 1993

supporting hardware, power and land and building.[16] The EIS cross-connect charge properly reflects these costs. For the DS3 offering, similar costs were included in the development of local channel charges. The Commission can do nothing but ignore MFS's contention.

3. BellSouth's Overhead Loadings Are Reasonable

Several petitioners object to the overhead loadings that were used in developing the costs for EIS.[17] They dispute the appropriateness of the use of fully assigned factors and argue that BellSouth should employ the same loadings factor that it uses to support special access high capacity services.

Petitioners are correct that in developing loadings for EIS, BellSouth applied a different approach than it has followed for special access high capacity services. But as discussed below, the approach resulted in considerably modest loading factors for EIS relative to that which BellSouth employs for its special access high capacity services.

With the exception of ongoing maintenance and operating expenses associated with the central office floor space and

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[16] Teleport (App. A, Item 27) assumes that there is no instance in which an intrabuilding repeater should be necessary. Teleport is incorrect. For BellSouth, there are instances in which a signal within a building must travel more than 600 feet. In those instances, intrabuilding repeaters will be necessary.

[17] See e.g., Teleport App. A, Item 2, ALTS at 7-8; MFS at 18-19.

associated land for that floor space for the enclosed collocation module, BellSouth used incremental fully assigned administrative and maintenance factors. For the ongoing maintenance of the floor space, BellSouth developed maintenance expense per assignable square foot based on book costs.

The extent of loadings included in the cost study can be determined by comparing directly assigned cost factors to fully assigned factors.[18] The directly assigned administrative factor equals .03689. In comparison, the fully assigned cost factor is .10520. Use of the fully assigned factor represents a loading on investment of approximately 7 percent (i.e., the difference between the two factors).

The same comparison can be made for maintenance factors:

	FULLY ASSIGNED FACTOR	DIRECTLY ASSIGNED FACTOR	DIFFERENCE
LAND	.0000	.0000	0
BUILDING	.0037	.0032	.0005
ELECTRONIC ANALOG	.0474	.0244	.0230
ELECTRONIC DIGITAL	.0644	.0355	.0289
CIRCUIT DIGITAL	.0218	.0081	.0137

[18] The directly assigned factor would be used in developing an incremental cost.